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Correspondent of The National City Bank of New York



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# Economic Conditions
# Governmental Finance
# United States Securities



New York, March, 1924

## General Business Conditions

THE industrial and trade reports in recent weeks have generally confirmed the earlier indications of an increase in business activity since the first of the year. March opens with symptoms which in the main are the same as those which accompanied the prosperous conditions of last year. While not up to the peak levels of last year, the majority of business indexes, such as railway traffic, factory employment, and the volume of checks passing through the banks, indicate that production and distribution on the whole have been moving forward at approximately a normal pace. Indeed, it is quite possible that any material increase in activity might be the cause of a feeling of alarm similar to that which developed last year and brought about the reaction in May.

Colder weather since the first of the year and special sales have helped the retail trade by moving clothing stocks, and department store sales in the New York district during January were 9 per cent above a year ago. The Federal Reserve Board's index of production in twenty-two basic industries rose 8 per cent in January and stood within 6 per cent of the high point of last year, reached in May. The volume of building construction continues unabated, as indicated by contract awards running 20 to 25 per cent higher than a year ago, and this has tended to sustain the hardware trade and other industries supplying equipment entering into building construction. A further measure of the activity of industry has been the car loading figures which in the week of February 16 reached 935,109 cars, or the largest ever before touched in any week of January, February, or March, with the exception of the final week of March last year, and were more than 118,000 cars above the corresponding week of February, 1923.

The production of steel ingots increased 756,000 tons, or 27 per cent between December and January to the highest point since last August, and there was also a small increase in the output of pig iron. Unfilled orders on the books of the Steel Corporation rose 353,000 tons, following a small increase in December which had been the first break in a long decline since March of last year. With buying continuing in good volume in February, the industry entered March operating about 93 per cent of capacity for the Steel Corporation and an average of 85 to 86 per cent for all producers. A feature of the steel market has been active railroad equipment buying, the total of car purchases for the month running up to nearly 30,000 cars, as compared with approximately 175,000 cars produced in the entire year 1923. According to an estimate of the Iron Age, about 30 per cent of all steel purchases since the first of the year has been for the railroads, a rate which if continued throughout the year would mean a somewhat higher proportion than last year. These large orders, following active buying in the past two years, are apparently based on prospects of heavy traffic afforded by the current record of car loadings and reflect also the improved financial condition of the companies. When it is recalled the railroads normally consume about 25 per cent of the steel produced in the country, the importance of their continued buying may be readily understood.

In the automobile industry, the production figures for January showed a total output of over 316,000 passenger cars and trucks, an increase of 4 per cent over December and of 30 per cent over January last year. While there may be considerable difference of opinion as to how long this industry will be able to maintain its remarkable rate of expansion, the oncoming of Spring makes it highly probable that for the immediate future months at least there is more likely to be increase than decrease. All reports from the tire industry are that that business is in better shape than at any time in the past six months at least.

Production of bituminous coal, which underwent a sharp slump during the period of mild weather in the Fall, increased rapidly in January under the threat of a strike, and was the heaviest for any January on record. Most of this coal went into stock, bringing the total estimated stock in consumers hands to over

62,000,000 tons, or close to the peace time record. News of the agreement between the United Mine Workers and the Central Competitive Field operators providing for a renewal of the present wage scale for three years was followed by some decline in production and easing in prices.

This agreement to maintain present wage rates in face of the fact that the capacity of the industry is far beyond the consumptive requirements of the country, raises a question as to whether it is going to be possible to maintain this scale. The non-union districts will probably cut prices and run at capacity which will cause a great amount of idleness in the districts observing the scale. It is another case of attempting to ignore economic law.

#### The Textile Industry

The textile industry continues to be the outstanding exception to the conditions prevailing in most other major lines. Notwithstanding short supplies, the price of raw cotton has undergone a decline of about 9½ cents since the high point of 37.65 cents a pound reached December 1, and on March 1 was quoted at 28.25 cents for spot at New York. This has been accompanied by a sharp decline in cotton goods and at no time has it been possible to make up goods out of spot cotton and come out even. Many of the New England mills, particularly those manufacturing the finer goods, are closed or running on a small percentage of capacity, and there has been some curtailment in the southern mills which manufacture largely the heavier goods. Trading in the goods markets has been generally slack, Fall River sales of print cloths falling during some weeks to barely a day's normal business.

In many respects the present situation in the cotton goods trade is very similar to that of last year. During the Winter season a year ago there were fears in some quarters that stocks would be exhausted before the end of the crop year, and that an ensuing cotton famine would send prices to 40 and even 50 cents a pound. Prices in fact did rise sharply until they reached 33.30 cents a pound in March, 1923, from which point, however, they failed to advance further. With the public strenuously resisting price advances, merchants refused to buy and prices fell and did not recover during the crop year.

The market started out the same way at beginning of this crop year. With a carry-over less than that of a year ago and exports running considerably heavier there was again the same talk of 40 and 50 cent cotton. The movement, however, was more rapid and reached a peak earlier than last year. As prices rose, the same symptoms which had manifested themselves during the previous advance were again apparent. Buyers held off and again won out, so that speculators for the rise became discouraged and let go their holdings, with the resultant sharp decline in prices. While the consumption figures for January were larger than those for December and in fact the largest since August, exports declined over 300,000 bales, and the total of exports and consumption was lower than in December. The threatening labor situation in the British textile industry has further discouraged speculation on the constructive side of the market, as indicated by the fact that the October future is selling about 3 cents below spot. Such a spread in prices causes merchants to postpone purchases of cotton goods to the future months. All this is quite an instructive demonstration that the public at last has the final word on prices through its ability to regulate its purchases and to shift consumption from one class of goods to another.

The formal openings of Fall lines thus far announced by the leading factors in the woolen and cotton goods trades were made at prices approximately on a level with those of last Fall and generally lower than on goods for this Spring. The naming of these prices notwithstanding the substantially higher levels prevailing for cotton and wool since a year ago, indicates the determined bid being made by the mills to secure full operations.

## Money and Banking

Commercial demand for funds has increased moderately in the past month. Loans largely for commercial purposes of the reporting member banks on February 20 were $7,849,000,000, or about $100,000,000 higher than a month previous. This increase, however, was partly offset by a reduction in loans on stocks and bonds.

Total earning assets of the Federal Reserve Banks on February 6 and February 20 touched new low points since 1917, but were somewhat higher than in the final week of February. Federal Reserve notes in circulation remained near the low points reached early in February.

Open market rates for commercial paper were quoted at 4¾ to 5 per cent in New York, with a slightly firmer tone in the market than in January. Bank acceptances, which had dropped to 4 per cent for 90-day bills at the end of January, were advanced again to 4⅛ per cent, and both call and time loans on stock market collateral were generally somewhat firmer than in January.

## The 1923 Annual Reports

The impressions as to the general excellence of business profits during 1923 created by the first available annual reports, including that of the United States Steel Corporation, have been borne out in the main by the later reports

as they have been made public. Annual sales almost invariably show an increase and in numerous cases were the largest in the history of the reporting companies. Accompanying the increased sales, profits as a rule were substantially higher than in the previous years. In most instances these profits have been largely retained in the business.

Current assets as a rule have been built up, and current liabilities liquidated, so that the concerns are in a stronger and more liquid condition. The cash item has been increased, notwithstanding the demands to use cash for carrying on a large volume of business; the accounts and notes receivable are larger in company with the increased sales, and are of better quality; the merchandise inventories are somewhat heavier but are doubtless better balanced and in general do not seem excessive in relation to normal business requirements.

On the liability side, bank loans have been further reduced if not cleaned up entirely. The accounts payable, tax reserves and accrued wages, expenses, etc., are fairly large, but for most of these items the payment is seldom anticipated and is made in the course of business out of the receipts from sales.

### The Steel Companies

An industry which represents in a striking manner the recovery accomplished by business during 1923 is that of steel manufacturing. The following list of earnings of the more important companies shows the remarkable improvement in this industry. These figures represent the net profits available for dividends or to carry to surplus; i. e., after all expenses, depreciation, interest, reserves, adjustments and provision for taxes.

**NET PROFITS**
(000's omitted)

| | 1921 | 1922 | 1923 |
|---|---|---|---|
| American Rolling Mill Co. | *2,409 | 2,306 | ........... |
| Bethlehem Steel Corp. | 10,333 | 4,605 | 14,374 |
| British Empire Steel Corp., Ltd. | 1,734 | 2,368 | ........... |
| Crucible Steel Co. of America | 5,547 | *3,710 | 4,611 |
| Donner Steel Co | *2,223 | *1,306 | 1,116 |
| Eastern Rolling Mill Co. | *429 | 332 | 1,448 |
| Gulf States Steel Co. | *592 | 958 | 1,577 |
| Inland Steel Co. | 511 | 1,141 | 5,275 |
| Jones & Laughlin Steel Corp. | *3,610 | 6,389 | ........... |
| Nova Scotia Steel & Coal Co., Ltd. | 53 | *1,086 | ........... |
| Otis Steel Co. | *5,190 | *428 | 1,500 |
| Penn Seaboard Steel Corp. | *1,596 | *1,237 | ........... |
| Pittsburgh Steel Co. | 1,723 | 862 | 2,022 |
| Replogie Steel Co. | *874 | *443 | 428 |
| Republic Iron and Steel Co. | *5,665 | 418 | 6,252 |
| Sloss-Sheffield Steel & Iron Co. | *931 | 579 | 2,500 |
| Truscon Steel Co. | *337 | 984 | 1,379 |
| Trumbull Steel Co. | 260 | ......... | 2,771 |
| United Alloy Steel Corp. | *2,747 | 3,002 | ........... |
| United States Steel Corp. | 36,617 | 39,653 | 108,729 |
| Wickwire Spencer Steel Corp. | *3,646 | *810 | ........... |
| Youngstown Sheet & Tube Co. | * 44 | 3,707 | ........... |

*Deficit.

### The Sugar Companies

The year 1923 was the first really good year for the sugar producing and refining companies since the extreme demoralization of that industry when the price of sugar dropped from a high of 22.50 cents per pound in 1920 to below 5 cents per pound at the end of 1921.

The figures on sugar production by most companies for last year show a decrease as compared with the previous year. One cause was the extreme drought prevailing in the Caribbean territory. Another was the voluntary reduction in output dictated by low prices. The total Cuban crop of 3,602,910 tons compared with 3,996,387 the year before, while the United States beet production was 615,936 tons as against 911,190 the preceding year. Since cane sugar is a perennial crop and when the cane is once planted as many as six or more crops can be cut from it, there was no great decrease in acreage, except that there was less replanting of old fields and less clearing of new lands.

The increased profits resulted from a better price realized by the planters for raw sugar (an average of about 4.50 cents per pound against about 3.00 cents in 1921-22), and more stable market conditions, in spite of the fluctuations caused by the talk of a "sugar corner" last May and the unsuccessful prosecution of the sugar exchange and brokers dealing in the commodity. The plantation costs, also, were considerably reduced because of a greater efficiency of labor and management.

The following list shows the net profits of the more important producers of cane and beet sugar, and the refiners, for which figures are made public. The fiscal years end at various times, usually between June 30th and December 31st.

**NET PROFITS**
(000's omitted)

| | 1921 | 1922 | 1923 |
|---|---|---|---|
| Amalgamated Sugar Co. | *371 | *5,030 | 565 |
| American Beet Sugar Co. | 134 | *3,016 | 723 |
| American Sugar Refining Co. | *586 | 8,555 | ......... |
| Central Aguirre Sugar Co. | 657 | 715 | 2,007 |
| Cuba Cane Sugar Corp. | *18,793 | 1,007 | 6,477 |
| Cuban-American Sugar Co. | *7,897 | 2,023 | 8,003 |
| Cuban Dominican Sugar Co. | ......... | ......... | 1,410 |
| Fajardo Sugar Co. | *695 | 272 | 1,120 |
| Federal Sugar Refining Co. | 2,000 | 2,372 | ......... |
| Francisco Sugar Co. | 533 | 242 | 623 |
| Godchaux Sugars, Inc. | *2,558 | 144 | *105 |
| Great Western Sugar Co. | 4,264 | *8,363 | 6,879 |
| Guantanamo Sugar Co. | *940 | 132 | *244 |
| Holly Sugar Co. | 405 | *1,297 | *224 |
| Manati Sugar Co. | *712 | *330 | 1,622 |
| New Niquiero Sugar Co. | *743 | 611 | 581 |
| Punta Alegre Sugar Co. | *2,069 | 136 | 3,490 |
| South Porto Rico Sugar Co. | 446 | *1,212 | 1,767 |
| Sugar Estates of Oriente, Inc. | | | 1,753 |
| United Fruit Co. | 16,976 | 18,851 | 23,097 |
| Utah-Idaho Sugar Co. | 1,668 | *5,908 | *171 |
| Warner Sugar Refining Co. | 517 | 7 63 | ......... |

*Deficit.

Substantial improvement was also the rule in many other major industries. Some of the automobile companies showed profits approxi-

mating or exceeding the 1919-20 boom period, and concerns making railway equipment and other machinery, with the exception of agricultural machinery, were also prosperous. The low-cost producers of copper did fairly well, but the high cost producers fared badly, the great Calumet and Hecla being one of the latest to close down entirely. The demand for lead was strong throughout the year, by reason of active building operations and prices were maintained at a profitable level. The better established of the oil companies have come through the year in good shape in spite of the demoralization in prices of petroleum brought about by an unprecedented increase in output on the Pacific coast. While unfavorable conditions still hamper certain lines, such as leather, rubber and shipping, the preponderance of results through the list is unusually satisfactory.

## The Mellon Plan

The Mellon plan of tax-reduction has been in difficulties in the House, a group of Republican Congressmen having gone over to the support of the Democratic caucus measure upon the surtax rates and on several votes given it a majority. A compromise was finally reached within the majority party under which the maximum surtax now stands at 37½ per cent on incomes above $200,000 per annum with proportionate reductions below. The reduction in the normal tax rate is greater on incomes under $8,000 than in the Mellon plan.

The opponents of the Mellon proposal to reduce the maximum surtax to 25 per cent all talk lustily about the iniquity of relieving the rich man of taxation, ignoring the fact that there already exists a complete haven of refuge against all income taxes. Over and over again Mr. Mellon has pointed out the futility of levying taxes attempting to take 40 or 50 per cent of income when there exists an abundance of the safest kind of investments netting 4 to 5 per cent interest and wholly exempt from national, state and local taxation. The folly of ignoring the supply of tax-exempt securities is especially remarkable in the case of the Congressmen, who by their own action have increased that supply, by authorizing the Farm Land Bank bonds. Moreover, the House within the past month has again defeated the proposition for a constitutional amendment to do away with the exemption. So the supply of tax-exempts will continue to be augmented and a lot of legislators apparently are determined to drive investors to them.

### A Simple Problem in Mathematics

It requires but slight proficiency in mathematics to be able to calculate that to an individual subject to a 50 per cent tax-levy an investment paying 10 per cent will yield no more net income than a tax-exempt investment paying 5 per cent. That proposition can be worked out in the primary grade. Most people of any business experience understand also that investments which promise to pay 10 per cent are likely to be of a hazardous character, whereas the 5 per cent tax-exempts are municipal bonds, land bank bonds, etc., in which the element of risk is reduced to the minimum. The argument, therefore, so far as the particular rich man over whom the controversy rages is concerned, is in favor of the tax-exempts, and the treasury records show that year after year the revenue derived from these schedules is being reduced. It doesn't all fall off immediately, of course, for the owners possess investments formerly acquired, some of which cannot be advantageously shifted, but the argument against new investments of this class is almost conclusive.

If any one will take the trouble to make the simple calculation necessary to test the application of any of the talked-of compromise rates, as 40 per cent, 37½ per cent, or 35 per cent, he will readily see why Secretary Mellon refuses to accept them. They will defeat the effort he is making to induce the big incomes to come back within range, where the Treasury can get an annual contribution from them.

### Japanese Issue

The recent issue of Japanese bonds which yields about 7 per cent is an exceptional investment opportunity, but to an investor subject to the 50 per cent surtax plus 8 per cent normal tax it is out of the question, because it yields less than 3 per cent. A surtax of 35 per cent, plus a normal tax of 6 per cent will leave him but a little more than 4 per cent, still less than the net yield on the highest class of municipal bonds. Even Mr. Mellon's plan for a 25 per cent surtax and a 6 per cent normal tax makes a total tax of 31 per cent, which makes the yield under 5 per cent. Moreover, in all these illustrations it must be considered that there are state, municipal and local taxes not brought into the calculation. The compromises are not acceptable because Mr. Mellon is trying to accomplish a definite purpose, and none of these proposals would do it. As he bluntly puts it, these proposals are not practical, but political, their supporters being satisfied to go through the motions of taxing the big incomes, while Mr. Mellon is trying to get revenues into the Treasury.

### The Constructive Value of Private Wealth

All along Mr. Mellon has devoted much of his argument to the disadvantage to the community of driving the large incomes into tax-exempt securities and preventing their invest-

ment in active business. It is the owners of this class of incomes who can best afford to take the risks of new enterprises and provide the funds for experimental undertakings. It is a common saying in the business world that 6 per cent interest yields a larger return on the average than all the new and attractive ventures, but the community has an interest in the new ventures, because now and then a strike is made that revolutionizes some important industry and yields great and permanent benefits to society. The men who supply the capital for the new ventures must expect to lose it in many instances, and when to this risk is added a tax rate of 50 per cent upon success the odds are too heavy.

Over and over it has been explained that even in the instances where the high rates are actually effective and the taxes are paid, the public gets from the rich man less than it would gain if it allowed him to keep it and use it in industry. The chief difficulty in all this discussion and in the broad discussion of wealth distribution, is in getting a general understanding of the community value of private wealth. These taxes, heavy as they are, seldom cut close enough to compel any personal economies by the tax-payer. They do not affect his living expenditures, but merely reduce the amount he would otherwise invest in the expansion of industry.

#### Henry Ford's Interview

Henry Ford has a very clear grasp of this, and there has been no more effective contribution to the support of the Mellon plan than he has given in the interview for Colliers, obtained by Samuel Crowther, who collaborated with Mr. Ford in the preparation of his autobiography.

Mr. Ford says that it would make little difference to him, so far as personal comfort or expenditures are concerned, whether the taxes took 1 per cent or 99 per cent of his profits. If he had 1 per cent left it would still supply all he would care to spend on himself, and whatever he has left above his living expenses he always has expended, and expects always to expend, upon industrial development. Whatever is taken from him to be expended by public officials means just so much of a curtailment of his enterprises.

The increase in number of workmen employed by Mr. Ford from say 1,000 men, to 100,000 men and more, has meant nothing to him in the sense of personal gain; no part of the additional earnings have been devoted to him; they have all been used to provide the equipment required for the employment of more wage-earners and pay more wages; all the gains of the larger business have been used for the development of the industry and to produce an increasing output of cheap cars, wanted by the millions.

What he says will enable everybody to understand how the present system of taxation applies to one rich man. Of course, Mr. Ford is one man who will not convert his fortune into tax-exempt securities. He never would be content to clip coupons. Moreover, at present, Mr. Ford probably does not pay the high surtaxes on much of his income, because the Ford Motor Company does not declare dividends, but reinvests its net earnings directly. Bad as the tax laws are, as yet they permit industrial companies to reinvest their earnings for the enlargement of production, and without other taxation than the 12½ per cent corporation income levy. This is a proper recognition of the fact that so long as earnings are devoted to industrial expansion they are devoted to a public purpose, as truly as though the industries were owned by the State. But this condition may not continue; there is a fierce demand at Washington for the taxation of corporation "surplus", prompted by the inquisitors who can see nothing about a big industry except that it is private wealth, and that the man who has built it up is richer than other men. The mania for equality, for reducing the power and influence of every man who shows ability to rise above the common run, is strong at Washington.

Whatever Henry Ford's personal views may be, he knows industry, and has made an extraordinary contribution to the life of his time. It is not too much to say that every kind of industry in this country has learned lessons from Henry Ford. He says in effect that nothing like what he has achieved would have been possible if the present scale of personal income taxes had applied to the earnings of the Ford Company from the beginning, and that scale does not begin to realize the desires of the socialistic leaders whose influence at Washington is manifestly growing. The type of agitators who hold that no individual ever should be allowed to control a million dollars will make sad work of American idustry if they can have their way.

The Ford interview opens new possibilities for the fight in behalf of the Mellon plan. It ought to be read by every workingman in the country, and all others. All can understand it. If it is properly circulated there will be a further outburst of popular indignation over the political bunk that has been passed out on this subject.

There is one feature of the interview that should not be overlooked, and that is his reference to the strange incongruity he finds in the action of the disciples of high taxation, which he says is calculated to compel business men to greater dependence upon banks, and the action of the banks in opposition to their

efforts. Mr. Ford here illustrates the very old error which always has been the basis of popular antagonism of banks. He fails to grasp the fact that the chief earnings of banking institutions are not made by the use of their own capital, but the capital of their patrons, left with them in the form of deposits. Once it is understood that bank profits depend upon volume of deposits, and that deposits rise with the wealth and prosperity of the general community, the interest that bankers have in promoting prosperity will be apparent.

## Agricultural Conditions

May wheat is selling at about $1.11 per bushel in Chicago, which is fully 10 cents above our export basis. This shows that the home market is still on a speculative basis, probably sustained by expectations that the import duty will be raised and that before the end of the crop year all the domestic stock will be required for home consumption with the exception of durum wheat and the stocks on the Pacific Coast, both of which are not represented by the above quotations. When the Winter acreage was announced the prospect was considered favorable to a reduction of 10 or 12 per cent in the next crop. But the Winter is proving unusually favorable in the big producing districts of the plains. Advices from Western Kansas say that the state of moisture is most favorable and that the present outlook is for 100,000,000 bushels more than was produced in that part of the state last year, and a greater amount than ever before. May corn for more than a month has been selling at about 80 cents per bushel, which compares with 74¼ cents at this time last year and 66 cents two years ago. It is considerably above the normal parity with hogs and this has been the chief disappointment of the year to farmers in the corn and hog territory.

The low price of hogs, however, is easily accounted for in the enormous increase of receipts at central markets.

Receipts of hogs at sixty-seven central markets in 1922 aggregated 44,067,489 and in 1923, 55,329,843, or an increase of approximately 25 per cent, and at the seven principal markets of the middle west, which are most influential upon prices, the increase was 30 per cent. The 1923 receipts were about 21 per cent over those of 1918, the largest previous year and the year in which exports to Europe were at the maximum. The farmers deplore that prices declined under this rush of receipts, but it was the lower prices that broadened the demand and made possible the consumption of this increased quantity.

Receipts in January were the largest for that month ever known, and prices for hogs and hog products were very unsatisfactory. Under date January 6, 1924, the Institute of Meat Packers, described the situation in meats as follows:

Pork loins, the source of pork chops and roast pork, and bacon continue as outstanding bargains at this time, although picnics, both fresh and smoked, fresh pork shoulders, and other fresh pork cuts are wholesaling at very low levels. Standard grades of bacon are now wholesaling from 15 to 25 per cent lower than a year ago at this time, and quotations on some grades are as much as 10 per cent below those of a decade ago. Although there was an upward tendency in fresh pork prices following the Christmas holiday, quotations on several cuts still are among the lowest that have prevailed in years. Fresh pork butts, spareribs, skinned shoulders, and picnics, for example, are wholesaling substantially lower than they were at this time ten years ago.

In February conditions improved somewhat. The Stockyards National Bank of South Omaha gives the following comparative table of top prices paid for live stock on that market in January, 1913, 1919 and 1924:

**Comparative Top Prices Paid for Live Stock for Month of January**

| | 1924 | 1919 | 1913 |
|---|---|---|---|
| Corn Fed Beef Steers | $10.60 | $18.00 | $8.30 |
| Feeding Steers | 8.40 | 16.00 | 8.00 |
| Cows and Heifers | 8.10 | 14.00 | 7.10 |
| Hogs | 7.35 | 17.65 | 7.45 |
| Fat Lambs | 13.80 | 16.85 | 8.90 |
| Fat Ewes | 8.25 | 10.80 | 5.50 |
| Wethers and Yearlings | 12.00 | 13.35 | 8.15 |

Above prices are based on full loads.

John Clay & Co., live stock commission merchants at the Chicago yards and in the leading markets of the west, under date February 21, 1924, grow more cheerful. They say:

Fat cattle are at the top point of the year. Top $11.65 year ago $10.25. Hogs are only about 75 cents lower than a year ago—despite record breaking runs. Cause: great demand. Sheep and lambs higher than year ago. Top lambs $15.75. Heavy lambs selling remarkably well—$1.00 higher than year ago on 90 to 95 lbs. weights. Common cattle drag—too many of them and not enough good ones. Cheap pork affects cheap beef. Everybody working. Everybody well paid. Fine winter we're having.

## Farmers' Relief Measures

The $10,000,000 relief corporation for the Northwestern emergency, organized by bankers and leading business men over the country at the suggestion of President Coolidge, is already dealing with the situation. New York, Philadelphia and the East promptly subscribed one-half of the desired amount, Chicago's quota was fixed at $2,000,000 and Minnesota banks subscribed $1,000,000.

The remaining $2,000,000 was provided by assigning $700,000 each to Detroit and Cleveland and $600,000 to Pittsburg. In order to get the largest possible use of the capital subscribed two corporations are being organized, one a holding company, holding the stock of an operating company. The latter company will have power to issue debentures for sale to the public, thus making the $10,000,000 capi-

tal serve to enlist the use of a much larger sum if it should be needed. Mr. C. T. Jaffray, an experienced banker of the northwest, president of the First National Bank of Minneapolis, will have charge of operations.

The plan of the undertaking is to relieve the stringency existing in the Dakotas, Montana and other states which has resulted from the numerous bank failures. The bank failures not only lock up the closed banks and deprive the communities of their services, but cause cash withdrawals from other banks, thus prompting all banks to make more strenuous efforts for collections and to restrict their lending operations. The effects of the existing state of pressure on the banks thus is to make conditions more difficult for all debtors and to deprive the communities of normal banking accommodations.

The inauguration of this relief movement undoubtedly will have an immediate psychological effect, by giving assurance that the banking situation will have support from the outside. There are many banks which although possessed of abundant assets have not the class of paper to which the Federal Reserve banks are restricted, and cannot obtain accommodations at those institutions. Farm mortgages are an example of such assets. The new corporation will be able to make advances on the strength of assets of this character, and to carry the loans for longer periods than are permitted by the Reserve banks. In short, it will be an emergency service, more adaptable than the Reserve banks under the law can give. It goes without saying that no scheme of finance can rescue either banks or borrowers whose capital has been lost in bad investments, but banks and borrowers who simply are embarrassed by immediate pressure for funds, and who possess property which although not quickly realizable is safely in excess of their liabilities, can be aided, and this is the purpose for which this organization has been formed.

The present situation in agriculture undoubtedly is temporary, similar to that which existed from 1873 to 1879 and from 1893 to 1898. It is part of a world-wide situation brought about by the war. As certain readjustments in production are made, agriculture will recover, and there is good reason to believe that before many years have passed the localities where pessimism is now of deepest hue will enjoy a higher state of prosperity than they have ever known in the past. The contributors to this fund believe this, and are supplying capital in that faith. The conditions are such as involve some unavoidable risk of loss, but with good management it is thought that the losses need not be large, while the benefits will be great.

In view of the fact that this Bank through its publications has expressed opposition to certain proposed measures of relief which it considers to be impractical, it seems not out of place in connection with this fund to mention that it has subscribed $500,000 of the $5,000,000 raised in New York and the East.

### The Norbeck-Burtness Bill

The Norbeck-Burtness bill which proposes to create a government loan fund of $50,000,000, to be loaned in sums not exceeding $1,000 to any individual, for the purpose of aiding the change to diversified farming, is said to have a good chance of passage, the influence of the administration having been given to it. The measure of course is a departure from common practice, although individual loans in emergencies have been provided through governmental agencies at times in the past. An emergency unquestionably exists in some localities where wheat has been the staple crop. Moreover, a fair case for some degree of governmental responsibility is made out by the proponents of this measure. They show that before the war North Dakota was making steady progress in diversified farming, and that not only was this progress checked by the war but previous gains were lost. It is stated that the United States Department of Agriculture through the force of county agents used direct persuasion to induce the farmers of North Dakota to cut out other crops and put all possible acreage in wheat. This appeal of course had direct reference to the loss of Russian supplies to Great Britain and France, and the necessity for increased production elsewhere. While such efforts obviously were to meet a temporary emergency, and hardly could have been interpreted otherwise, it is affirmed that North Dakota by this time would be much farther along with diversification development than it is, but for the war and the appeals of the national authorities for more wheat.

Moreover, whatever the cause, it cannot be other than a matter of grave concern that thousands of farmers who have labored in good faith are in the way of losing their homes, and that they have not the capital with which to make a beginning in dairying or stock-growing.

### Minnesota Resolutions

That the farmers of the northwestern states are not by any means unanimous for public relief measures of any kind, and view with suspicion the numerous proposals circulating in Washington for new marketing schemes, is indicated by the following report of the proceedings of the annual convention of the Minnesota Dairymen's Association, meeting at Albert Lea, in February:

**Albert Lea, Minn.—Indorsement was given the Coulter Bill for the aid of farmers in the Northwest who seek to enter the live-stock business in a reso-**

lution adopted at the closing session of the Minnesota State Dairymen's convention here.

The resolution was the subject of considerable debate, several of the delegates expressing doubt as to the advisability of extending government aid, but the fact that the fund to be expended is derived from the profits of the Grain Board operations during the war was the claim that turned the balance in favor of the resolution.

Another resolution that may have a far reaching effect in dairy circles follows:

Whereas: Many of our co-operative creameries have become imbued with the idea that by organizing and concentrating the product they can increase prices beyond what the consumer will pay; we consider this pyramiding of prices impractical and fear it might encourage the use of imported butter and substitutes, the effect of which would be a depressed market and lower prices to the consumer; therefore

Be It Resolved: That the Minnesota Dairymen's Association advise the creameries that they use their best judgment and discretion before embarking on any new and untried program.

Which, being interpreted seems to mean that the Minnesota dairymen are getting along very well, feel quite competent to manage their affairs without any assistance, and view all public relief measures as of doubtful propriety.

### The McNary-Haugen Bill

This measure has rallied considerable support, hearings upon it have closed, and the Committee, which is dominated by the farm bloc, has agreed to report it favorably. It falls in the general class of legislation occasionally passed which seriously affects the rights and interests of foreign countries, and prompts retaliatory legislation involving international relations and general confusion, to the disadvantage of everybody including ourselves. A sample of such legislation was afforded in the Shipping Act passed some years ago, which with a view to promoting our merchant marine provided for discriminatory customs duties in favor of all goods imported in ships of American registry. This policy had been advocated for a long time by a few persons who thought they saw a simple and easy way of throwing business to American ships, and who never seemed to have thought of the possibility that foreign countries could play the same game. The operations of the provision would nullify our commercial treaties with all countries engaged in the shipping trade, and it plainly would be necessary to enter into negotiations for new treaties before putting this section into effect. The proposition was so obviously offensive to foreign countries and so certain to provoke retaliatory legislation, that neither President Wilson nor President Harding made any public move in the matter, nor has President Coolidge to this time. Of course if all countries passed similar legislation, and carried the scheme to the full measure of success, every country would be carrying its own imports, and all ships would run empty one way. Approximately twice as many ships would be required, and freight charges all around would be doubled.

The plan of the McNary-Haugen bill is to have a government-owned corporation buy a sufficient quantity of all farm products for which current prices are below the pre-war parity to cause prices to rise to that level, the home market to be protected from foreign foreign markets by customs duties. Such purchases would be disposed of in foreign markets for whatever they will bring, and the losses charged back upon the producers benefited by the rise. It is a clear case of what is known in international trade as "dumping," and a case that would be more than ordinarily offensive, because carried on under governmental auspices. We don't allow the products of other countries, if they compete with similar products of this country, to be sold in the United States at prices below those at which they are ordinarily sold in the countries of production. Section 303 of the Fordney Act reads as follows:

Sec. 303. That whenever any country, dependency, colony, province, or other political subdivision of government, person, partnership, association, cartel, or corporation shall pay or bestow, directly or indirectly, any bounty or grant upon the manufacture or production or export of any article or merchandise manufactured or produced in such country, dependency, colony, province, or other political subdivision of government, and such article or merchandise is dutiable under the provisions of this Act, then upon the importation of any such article or merchandise into the United States, whether the same shall be imported directly from the country of production or otherwise, and whether such article or merchandise is imported in the same condition as when exported from the country of production or has been changed in condition by remanufacture or otherwise, there shall be levied and paid, in all such cases, in addition to the duties otherwise imposed by this Act, an additional duty equal to the net amount of such bounty or grant, however the same be paid or bestowed. The net amount of all such bounties or grants shall be from time to time ascertained, determined, and declared by the Secretary of the Treasury, who shall make all needful regulations for the identification of such articles and merchandise and for the assessment and collection of such additional duties.

It has been a common policy of this country to provide "countervailing" duties to nullify attempts by foreign countries to artificially promote certain exports. Moreover, it is common policy for other countries to have anti-dumping laws and countervailing provisions. Canada has such legislation, likewise Australia, and within the past few days press dispatches have carried the following news item bearing on the subject:

WASHINGTON, Feb. 28—Dumping duties have been applied by the Australian Minister of Trade and Customs to shipments of pianos imported into Australia from the United States, according to a report to the Department of Commerce. This action was taken on the ground that these goods were being sold to Australian importers at less than the fair market value of the goods.

The dumping of our surplus agricultural products at forced sale in foreign markets is the outstanding feature of the McNary-Haugen bill, and it is certain to be a highly offensive policy to all countries in which agi-

culture is an important industry. There can be no doubt that the British colonies would promptly complain to the mother country of its unfairness and injurious effects upon them, and agriculture in Great Britain would complain bitterly.

For many years the dominions of the British Empire have been urging Great Britain to establish their agricultural products on a preferential basis in Great Britain, in exchange for the preferential position given British manufactures in the Dominions, and this was one of the principal subjects under consideration at the Imperial Conference last summer in London. It would be a sorry outcome of this legislation if it should result in placing American farm products in a permanently disadvantageous position in Great Britain, which has always been our best customer.

The people of other agricultural countries naturally will think that we should do our part to correct the disorganized world situation by curtailing proportionately our share of surplus production, instead of maintaining production and dumping the surplus where it will embarrass our neighbors. The policy does not show the spirit of comity and good will that is desirable between nations, and nations usually find a way to counteract such policies. If this measure should have the effect desired by its advocates, it would tend to maintain or increase production in the lines in which we have a surplus, while the higher price level in this country would tend to reduce domestic consumption and increase our exports.

Moreover, the proposition not only disregards the interests of other countries, but attempts to regulate group relationships at home in a manner not likely to be successful. The great industrial districts of the country are a power in swinging the votes of the close states, and the wage-earners could not be expected to approve of a policy under which home-grown food was sold more cheaply abroad than for home consumption.

### Old School Doctoring

There is a close similarity between the human physical system and the modern industrial systems in complexity and the possibility of getting out of order. If anything goes wrong with the regular workings of either, there are symptoms of disorder, called in the one case sickness and in the other an industrial crisis or depression. A great change has come over the practice of medicine in the last fifty or one hundred years in dealing with sickness. The old practice was to "do something" violent or desperate forthwith. The patient was bled, scarified, purged, physicked, drugged, drenched, dosed with the most drastic remedies known, the apparent purpose being either to try everything that might happen to suit the case, or to stir up all the life forces with a view to exciting them to a supreme effort of resistance that would finally put the evil spirits to flight. If the patient did not die under the treatment, it was considered that persistence had been rewarded in at last finding the proper remedy. In later years, however, medical science has demonstrated that Nature has her own restorative processes, and that the best treatment for the patient is one that gives rest and nourishment and depends upon Nature to work the cure.

In dealing with the ills of the industrial system, however, the same old political doctoring remains in vogue. First the political doctors have a debate as to who is responsible for the patient's condition. Who has "charmed" or bewitched him, and by what incantations can the charms be loosened? There is intense activity in all political circles to "do something" forthwith, with little appreciation of the fact that unless the prescription is founded on knowledge it will make the patient worse. No remedy is too preposterous to be tried. All the quacks who feel that their own political future is involved have remedies to offer which they guess might accomplish something. There is no recognition of the principle that Nature's forces are the most potent agency of recuperation, and that if not interfered with but given free play will work a certain and speedy cure.

### Cost of Crop Production

The Tariff Board has been investigating the cost of producing wheat in Canada and in different parts of the United States, preparatory to acting upon the appeal of the Northwestern producers for an increase in the present rate of duty which is 30 cents per bushel.

It has issued a preliminary report, showing a range of costs in the United States, in 1923. exclusive of land charges, of from 63 cents to $1.57 per bushel, and in Canada from 43 cents to $1.03. These wide variations are due chiefly to variations in yield per acre, and go far to show that the information really has little value as a basis for legislation. A serious emergency undoubtedly exists among the wheat growers at the present time, and it is obviously true that the consumers of wheat in this country are getting that commodity from the farmers on an unfair exchange basis. We are not therefore wishing to oppose the experiment for temporary purposes of a higher duty upon wheat, but there are several features of the situation to which it is proper to direct attention. In the first place, if it causes the farmers to continue to produce more wheat than is required for the home supply, the duty will not maintain the price. Wheat production in this country must be reduced in order to keep this country on an artificial level.

Furthermore, some of the arguments used in justification of the need for higher production are so unsound economically that they ought not to be allowed to sink into the public mind as suitable for use in support of general public policies. The arguments that the yield of wheat is higher per acre in Canada and that the quality of Canadian wheat is higher, are of this class. Offered for any other purpose than that of meeting a temporary emergency they are not entitled to have any weight, because both of these facts are the result of land deterioration, due to one-crop farming, and we would be foolish to subsidize policies that are ruining our lands.

Moreover, in view of these wide variations in crop costs, it will be well to read some of the good advice that the experts at the agricultural colleges have been giving to the farmers for years past. They have been constantly preaching the doctrine, so familiar to every successful manufacturer, that low unit costs depend very largely upon volume of production in relation to overhead. The cost per acre of producing any field crop is approximately the same up to the harvest, whether the yield is a full one or only one-half what it should be, and right here is where the greatest gain in results to the farmers is to be had.

### Cost of Producing Corn

Prof. F. C. Bauer, of the Farm Extension Department of the University of Illinois, in data published a year or two ago showed from actual records that where corn had been grown continuously on the same piece of land the average production per acre was only 27.3 bushels. With oats added to the rotation the corn average was 37 bushels per acre In a rotation of corn, oats, clover and wheat, the average of the state for corn alone is 55.6 bushels per acre. With this same rotation and with the addition of the crop residues, limestone and phosphorus, the yield for corn is 69 bushels per acre. When sweet clover is added, being seeded in the wheat and plowed under the following year for corn, the corn yield per acre is 83 bushels. The yields for the other crops in the rotation are also correspondingly increased.

Professor Bauer said that under these calculations where corn is grown alone the cost per bushel is 85c. With corn, oats, and clover, the cost per bushel is 58c. With corn, oats, and the fertilizers the cost is 40c and when sweet clover is added to the rotation as the green manuring crop, the cost per bushel is 36c.

His calculations also showed the fallacy of the common method of including interest on the investment in the farm, or rental value, in production cost, for he reversed the order of the calculation, showing that counting interest at 5 per cent, and assuming corn worth 40 cents per bushel, oats 30 cents, wheat $1.00, and legume hay $10 per ton, the cash value of the land would be as follows: For corn continuously, the value per acre is worse than worthless (minus $5.83 per acre); for the three-year rotation the value per acre is $105; for the four year rotation, $157; and for the four-year rotation with the green manure, $316.

These figures show that it is useless to figure on what wheat crops ought to be worth from the price of the land; the correct process is to base the value of the land on the value of the crops it will produce.

### Cost of Producing Beef

When it comes to growing any kind of live stock the difference of breeding upon results is very marked. John Roberts, of the Bureau of Animal Industry, Department of Agriculture, recently discussing comparative dressing yields, said:

The difference in dressing yield between a good and a common steer, according to the figures collected, is six per cent. For a 1,000-pound steer this would mean sixty pounds of marketable meat. Nor is this all, since the meat of the higher-class animals is superior in quality throughout, as well as being better distributed among the choicer cuts. In other words, the well-bred steer makes a more profitable use of his feed than the inferior one. These things are taken strictly into account by the experts who price the animals in the stockyards; they are, indeed, the factors that determine the market value of one class as compared with another.

What happens when two such steers are sold in the open market is of interest. Consider a good and a common steer raised on the same farm and fattened together in the same feed lot. Assume that each steer weighed 1,000 pounds and they were marketed at Chicago during the first week of July, 1923. The result of the sale would have been as follows:

| | Good Steer | Com'n Steer |
|---|---|---|
| Weight at market | 1,000 | 1,000 |
| Selling price cwt. | $10.01 | $7.12 |
| Sale value | 100.10 | 71.20 |

Increased value of "good" steer....$28.90
Per cent increase 40.6.

Considering the early maturing qualities of better-bred beef cattle, it may well be assumed in the above case that the common steer was a year older than the other, and so would have to be charged with an additional year's keep.

### Cost of Producing Milk

When it comes to dairying, similar results are found. The cost of producing butter depends upon the kind of cows a dairyman keeps, and the kind of care he gives them. Dr. David Friday, formerly President of the Michigan State College of Agriculture, in a talk the other day on dairying, said that the scrub dairyman might get 120,000 pounds of milk in a year from 40 cows, or an average of 3,000 pounds each, while he could get the same-sized milk check with 120,000 pounds of milk from 30 cows or 4,000 pounds each, or from 15 cows at 8,000 pounds each, or from 12 cows at 10,000 pounds each.

These calculations all go to show the inherent weakness of any scheme for governmental price-fixing for the purpose of assuring prices based on cost of production. Whose cost of production shall be adopted as the basis?

### Haphazard Farming Out of Date

An Iowa County Agent, a graduate of the Agricultural College at Ames, in an address made a couple of years ago, described the situation in that state, and the real cause of most of the agricultural distress, as follows:

Most of us have been so busy watching the up grade movement of the high prices of land that we have forgotten almost all the fundamental principles that underlie all farm value. While we want and hope that our land will be high priced, we do not want it to be so high priced that it will not bring fair returns. The value of the produce from our land is the thing of supreme importance to every farmer and every land owner. A very considerable bit of serious thought must be given to the carrying on of production in the business of farming. Haphazard methods of farming, waste land, poor seed, inferior stock, all must go by the board if we are going to succeed in this new and large venture of high priced land. The methods of our fathers and grandfathers can not possibly be used for successful results. We must use our most modern methods and must discover and plan news things if our success is to be maintained. Especially at this time we ought to pay attention to the matter of live stock, namely: cattle, horses and hog breeding. There are probably in this county no more than 2 per cent of live stock that are thoroughbred and possibly 10 per cent to 15 per cent that are good grades. The horses are in better condition, but there is a large chance for improvement in them. Our hogs for the most part have neither the stretch nor the bone to carry the weight that they ought to make them the most profitable meat producers. The most appalling proposition as far as the stock is concerned is that of our cattle. In a day's ride through the county one will see only 2 to 3 herds of good cattle. This ought not to be. The scrub must be relegated to the scrap heap the same as the old horsepower threshing machine and the old reaper. There improvements have gone by the board years ago but the same grade of cattle are on a great number of our farms today that our fathers had when they used to crack the long whip over the back of the horses from the stand on the old horse power. This is no idea that has been hatched in a pipe dream or in idealism but in cold facts that stare us in the face. It is for us to go to work and plan out for ourselves the things that are going to put the best stock and the best equipment on our farms and to make them produce interest on their valuation.

### A Cattle-Feeding Operation

Through the Tootle-Lacy National Bank of St. Joseph, Missouri, we have been furnished with the details of a typical "feeding" operation in cattle. Under date, February 12, the Bank writes:

Last Fall we loaned to a party in Nebraska $10,000.00 on cattle, and I have just received this morning from our country correspondent for whom we handled the loan the results from the marketing of those cattle.

He purchased 201 cattle laid down in his feed lot at an average cost of $4.65 per cwt. The results are set out in the following figures:

| | | |
|---|---|---|
| Cost $4.54, weight 883 | | $8,056.08 |
| Sale $8.15, weight 1,143 | | 18,723.05 |
| Gain | | $10,666.97 |
| Less the following: | | |
| 2/5 bu. corn per day per steer 100 days or 8,000 bu. corn @ .65 | $5,200.00 | |
| Interest | 350.00 | |
| Labor, water and carry charge | 700.00 | |
| | $6,250.00 | |
| | | 6,250.00 |
| Net Profit | | $4,316.97 |

This does not take account of gain to hogs running with cattle, which one is unable to estimate exactly but is a considerable item at any time, or of benefit to farm fertility from feeding operations.

The figures are interesting and show what can be done by a man who buys right and is prepared and knows how to take care of his cattle.

There has been so much in the public press about the farmer's condition that a great many people, I am afraid, especially in the East are beginning to get the idea that the farmers in the West are all in a deplorable condition.

It is true that farmers as well as all other lines of business suffered severely during the period of deflation, but the farmer who conducted his business along proper lines, who had not purchased high priced land during the period of inflation and loaded himself with a heavy burden of interest, and who had not spent his earnings in extravagant living is today in good financial condition. Not only can he meet his obligations, but, as in the instance which I have given you above, shows he is in a position to make money. I am referring to the farmers in northwestern Missouri, northern Kansas, southeastern Nebraska, and southern Iowa. The basic conditions in the sections mentioned were never sounder. Land prices have been reduced to a normal point; they were out of all reason at the time of inflation, and the man who dealt in lands at that time found himself in a similar position to the man who dealt in inflated cotton or manufactured goods.

Sometimes small items of local news are very significant of general conditions. A local paper referring to farming conditions in Humboldt County, Iowa, in the north central part of that state, in the month of February, when sales of farm personal property are prevailing preparatory to spring changes, has the following paragraphs:

That the county is on a fairly normal basis of operations, judging by pre-war standards, that people are optimistic, and hard times talk is a habit, has been demonstrated this month, with a farm sale almost daily, with large numbers attending for the purpose of buying and bidding lively. Auctioneer C. Skow, reports many farmers moving from the county, and their sales are for spot cash. At one sale the past week, $420 was the cash price of one team, with cows selling from $70 to $96, spring gilts $22, and $350 was paid for a team of mules, and $1.50 each for chickens. Fifteen hundred people attended Burns Brothers' sale at their farm near Thor, when $7,000 worth of stock and machinery included the offering. Two-year-old colts sold for $150 each; $157.50 was paid for horses; spring gilts brought $50 an 250 hens sold at $1.10 each.

## Remunerative Farm Products

Amid all complaints of unremunerative prices for other farm products there is none as to dairy products. It is admitted that dairy products are selling "fully up to the desired pre-war parity" with other products, a fact which is enough of itself to suggest that there probably are natural reasons why the prices of some farm products are depressed, and that the best remedy for that condition may be an economic rather than a legislative one. Moreover, it cannot be said that dairy products are a negligible factor in farm income over the country generally, although they are a small factor in some localities and particularly where wheat has been the specialty. The Department of Agriculture gives the aggregate value of dairy products in the country in 1921 as

$2,400,000,000, which was more than three times the value of the wheat crop of that year, and it has been increasing each year since. The official agricultural publication of Wisconsin is authority for the statemnet that one-half of the farm income of that state is from dairy products, and probably that is true of other states.

There is agitation in nearly all states for an increased production of dairy products. Particularly is this true in the west, where freight charges to market on bulky products are an important percentage of the prices, and the question is often asked whether this prevailing tendency is not to be viewed with misgiving, as perhaps leading to over development in that line. There is such danger in every movement where the economic inducements are so pronounced as in this case and where the movement is so widely fostered and encouraged. The dairy industry, however, always has been comparatively stable, and of course cannot be rapidly expanded like hog-production, the record of which in the last year has a tendencv to make farmers cautious about wholesale shifts from one line of production to another. The increase in milk cows has been quite regular in the past, to wit: from 17,136,000 head in 1900 to 20,625,000 in 1910, to 23,722,000 in 1920, and on January 1, 1924, was officially estimated at 24,675,000. No doubt the increase might be more rapid, for a great many dairy calves are slaughtered for veal, but several years would have to pass before any noticeable effect upon production would occur. The consumption of dairy products, particularly of ice cream and condensed and powdered milk, is increasing per capita, but in the United States is on the whole considerably below that of most European countries.

It may be added that eggs and poultry also comprise a group of farm products that is well up to the pre-war parity, and their aggregate market value is approximately $1,000,000,000.

### The Wool Situation

The raw wool situation is undoubtedly strong, world production having fallen steadily behind consumption since the war, owing to a reduction in the number of sheep in the principal countries. The big Australasian pastoral companies having large flocks have been very prosperous since prices recovered from the slump which occurred in the fore part of 1920. It was thought at the time of the slump that the big stocks of wool held by the British government at the close of the war would be a burden on the market for a long time, but they have been rapidly disappearing and the end of them now is in sight.

At the annual stockholders' meeting of the Australian Pastoral Company, Limited, in London, on January 22, 1924, the Chairman, Mr. Francis A. Keeting, was reported as describing the situation as follows:

> There was every probability that the present favorable price of wood would continue for a long time to come. Indeed, something like a veritable wool famine confronted the world in the near future. During the last two years the shortage in supply had been made good from the large stock of 2,600,000 bales which was in the hands of the British Government at the end of the war, and was transferred to Bawra for sale. That stock was nearly exhausted, and the market would then have only the current production to look to. It appeared certain that the world's supply of wool in 1924 would be nearly 20 per cent short of the quantity which the world consumed in 1923, and that shortage was likely to become greater as years went on.
>
> The reason for that progressive reduction lay in the fact that everywhere, as population and settlement increased and facilities of transport improved, it appeared to be an established principle that sheep-breeding decreased and various forms of mixed farming took its place. In Australia the result of the breaking up of large grazing estates and the growth of small holdings was not only a gradual diminution in the total number of sheep, but a still greater proportionate diminution in the growth of merino wool, of which, owing to the peculiar suitability of its pastures and climate, Australia had in the past enjoyed almost a monopoly, and a very valuable monopoly.
>
> It seemed as if before very long wool might afford an interesting demonstration of the truth of the Malthusian theory, that the world's supply of natural products necessary to man would fail to keep pace with the growth of its population. The only serious competitor with wool for clothing purposes was cotton, and the tendency of cotton also at present was towards diminishing quantities and higher prices, while among the Western nations it was very doubtful whether, where wool was at all obtainable, cotton would ever take its place or displace the preference for wool, which was based both on custom and hygiene. They might look forward with confidence to high prices for all the wool they produced for many years to come.

Notwithstanding the tendency referred to by Mr. Keeting to the breaking up of large grazing estates in Australia, it is beyond question that there is a great amount of unoccupied territory in Australia, suitable for sheep-growing rather than farming, and it seems probable that present prices will cause an increase in the herds, but the increase of sheep cannot be rushed as may be done with hogs, and some years will necessarily pass before the growing wants of the world are fully met.

Wool-growers in the United States are also beneficiaries of very high protective duties on importations, and have every reason to look for prosperity for years to come. The demand for wool is increased by the high prices ruling for cotton goods, from which no early relief is in view. Sheep may be grown, and in fact are grown, in every part of the United States, and do well in the Dakotas and other states where at least a partial shift from wheat-growing is desirable. The common understanding is that the chief drawback to sheep-growing in the older states is the roving mongrel dog. Seventy-five years ago New York State had over 5,000,000 sheep and on January 1, 1924, had 523,000, although they are especially suited to produce values on its rough lands. The number of sheep on farms in the United States

on January 1, 1924, was officially estimated at 38,361,000, which compares with 37,223,000 one year before and the high figure of 61,504,000, reported by the census of 1900. The production of wool in the United States in 1923 is estimated at 240,000,000 pounds, and the consumption of this country at about 800,000,000 pounds. It is evident therefore that wool is a farm product not over-produced in this country and affording an opportunity for profitable expansion. Moreover, the mutton product of the sheep industry as well as the wool product is on a very satisfactory basis.

## The Railroads

The Interstate Commerce Commission has recently given out statements relating to operating results for Class I railroads for 1923. Total operating revenues were $6,341,973,076, an increase of $733,601,476, or 13.08 per cent over 1922. Although this is a gratifying increase, it does not reflect the real increase in traffic, as the general rate reduction prescribed by the Commission in May, 1922, became effective July 1, 1922, so that for the first six months of the year traffic was moved on a substantially lower rate basis than for the first six months of 1922. In addition to the general rate reduction of 1922, there have been numerous individual rate reductions since the termination of Federal control on February 29, 1920, many of which were effective for only a part of 1922, while they were all in effect throughout the entire year 1923. The true measure of the increase in business is the comparison between ton-mile freight business and passenger mile passenger business. Freight revenues totaled $4,624,390,900, an increase of 15.3 per cent over 1922, but ton-miles of revenue freight mounted up to 413,153,000,000, compared with 339,285,347,521 in 1922, an increase of 21.7 per cent. Passenger revenues total $1,147,751,691, an increase of 6.6 per cent over 1922, but passenger miles were 38,100,000,000, compared with 35,469,841,029 in 1922, an increase of 7 per cent.

The most gratifying feature of the results is the fact that the carriers have made a still further advance in operating efficiency. The gross increase of $733,601,426, or 13.08 per cent, was accomplished by an increase in operating expenses of $483,984,819, or only 10.88 per cent, with a resulting gain in net of $249,616,607, or 21.5 per cent. Notwithstanding these increases in operating results, the carriers have not earned the 5.75 per cent prescribed by the Commission as the "fair return" on their property value. Net railway operating income amounted to $977,543,590, or only 5.10 per cent on the tentative valuation of the property of the carriers used in transportation service. This compares with $776,880,592, or 4.14 per cent, in 1922.

In fact, not since the Transportation Act of 1920 went into effect have the roads earned the "fair return" prescribed by the Commission. Statistics of the Bureau of Railway Economics recently published show that for the entire forty months from the end of the guaranty period on August 31, 1920, to December 31, 1923, the roads have actually earned net railway operating income of $2,596,700,000, and have fallen short by $1,086,600,000 of the "fair return" provided by the Act. In other words, the roads have earned only slightly over 4.00 per cent on their tentative valuations, or barely over two-thirds of the "fair return".

### The Recapture Clause

As above shown, the carriers have failed by a wide margin to earn the "fair return", and the roads themselves have been obliged to bear the loss. Thus, although there is no guaranty that the rates prescribed by the Act shall produce the "fair return", the Recapture Clause of Section 15a provides that should any carrier earn more than 6 per cent upon its property value as determined by the Valuation Act, one-half of the excess must be surrendered to the government. Under date of January 7, 1924, the United States Supreme Court, in an opinion delivered by Chief Justice Taft, upheld the constitutionality of the Recapture Clause. Whether the result of this decision will be to lessen the demand from certain sources for the repeal of Section 15a remains to be seen, but there is some basis for hope that it will, for the effect of repeal would not be to the advantage of railroad credit. Private operation of the roads demands that the credit of the carriers shall be maintained on a basis that will insure the supply of the additional funds necessary to meet the needs of the additional facilities that must be provided to insure adequate transportation facilities. Our national prosperity and wealth depend on our commerce, which, in turn, largely depends on the adequacy of our transportation facilities, and, mainly, our railroad facilities, so that the paramount interest of the public is in adequate transportation facilities, by whatever means attained.

### The Northwestern Roads

The roads west of the Mississippi, and particularly the roads in the Northwestern region, have not made the same relative gains as the roads in Eastern and Southern territory, partly due to the low prices for agricultural products, in consequence of which the purchasing power of the people was curtailed, and partly due to the competition of the Panama Canal, as a result of which much through business has been lost. The Northwestern roads have had this question before the Interstate Commerce Commission for some time and hearings have been held on their application for permission

to make lower rates on through business. The difficulty is to permit lower rates on through business and at the same time maintain rates on local traffic on a level that will produce net revenue, for if the through rates should be lower proportionately than the local rates, local industries must suffer. Nothing definite has yet been decided as to the general policy to be adopted, although certain rate reductions have been made to meet the Canal competition.

Figures announced by the Bureau of Railway Economics indicate that the roads in the Northwestern region in 1923 earned 3.42 per cent on their property investment, as compared with a return of 4.47 for the carriers as a whole.

### Wages

Increases of wages for various classes of employees on the different roads in recent months are much too numerous to mention as specific cases. In a recent issue, the Railway Age makes a comparison between wages paid to several of the leading classifications of employees in 1916 with those paid for the latest period for which figures are available. Says the Railway Age, "The average wage per day of all employees paid on a daily basis in 1916 was $3.04, while in November, 1923, it was $7.91, an increase of 160 per cent. * * * The average earnings of all employees in the year 1916 were $892.00, or $74.33 a month. In the twelve months ended with November, 1923, they were $1,626.00, or $135.55, an increase of only 82 per cent. But this apparent discrepancy between the earnings per day * * * and the earnings per month, on the other hand, is entirely due to the fact that the average number of hours worked per day and per month by a great majority of the employees has been substantially reduced."

The result is an actual increase in the amount of wages paid, because of the necessity of employing more men, of almost exactly 100 per cent. On the other hand, freight rates have advanced for the same period on an average of about 55 per cent.

Within the past few weeks various classes of employees have received wage increases either by voluntary award of the management or by decision of the Labor Board, ranging from two to eight cents an hour, and negotiations are pending between a number of roads and their employees, looking to further increases.

### Recent Valuations

The Commission has recently published additional statements regarding tentative valuations found for certain carriers. Among the important additional valuations are those of the Chicago and North Western, the Chicago, St. Paul, Minneapolis and Omaha, the Chicago, Milwaukee and St. Paul, and the Texas and Pacific.

The date of inventory of the Chicago and North Western was given as June 30, 1917. Based on the Commission's finding of Cost of Reproduction, less Depreciation, at the date of inventory, and adding to that the net investment in carrier property to December 31, 1922, with Cash and Materials and Supplies on hand as of that date, gives a total of $567,657,452, indicating that the company is entitled to a "fair return" on a 5.75 per cent basis of $32,640,303.49, which compares with actual net railway operating income for 1923 of less than $16,000,000. On the other hand, this valuation of the property used for carrier purposes compares with the company's balance sheet investment account for the same property of $457,760,729 and with the outstanding capitalization of both bonds and stock of $403,093,464 as of the same date. It seems clear that the company has neither overstated its property investment account nor is it overcapitalized.

Similarly, the Chicago, St. Paul, Minneapolis and Omaha, with an inventory date of June 30, 1917, shows a tentative valuation on the basis above indicated of $96,145,965, indicating that the "fair return" to which it is entitled should be $5,528,393, as compared with an actual net railway operating income for 1923 of $3,028,915. The company's balance sheet as of December 31, 1922, shows an investment in carrier property of $86,960,754 and total capitalization of $77,253,346.

The tentative valuation of carrier property of the Chicago, Milwaukee and St. Paul, with an inventory date of June 30, 1918, and net additions to December 31, 1922, is, on the same basis, $601,601,919, indicating that the property is entitled to a "fair return" of $34,592,110, as compared with an actual net railway operating income for 1923 of $20,167,713. The company's balance sheet as of December 31, 1922, shows an investment in carrier property of $667,567,675 and a total capitalization of $655,047,689.

The Texas and Pacific, with an inventory date of June 30, 1916, shows a tentative valuation as of December 31, 1922, on the same basis, of $85,300,653, indicating that its "fair return" should be $4,904,788, as compared with actual net railway operating income for 1923 of $5,237,535. The company's balance sheet as of December 31, 1922, shows an investment in carrier property of $130,492,035, and a total capitalization of $98,814,700. Clearly, it has not been overvalued by the Commission.

**It should be borne in mind that these tentative valuations are for carrier property—property used in the service of transportation—and do not include non-carrier lands and other property and investments not used for transportation purposes.**

**Government Ownership and Operation in Canada**

During the past few years the Canadian people have tried public ownership and operation of railroads on such an extensive scale that about the only privately owned and operated Canadian railroad is the Canadian Pacific, which has been able to maintain its high standard of efficiency and successful operation. Results of public operation, on the other hand, show an unfortunately dismal comparison. We have the figures showing results for 1920, 1921, and 1922 of the roads constituting the Canadian National Railways System before the Grand Trunk Railway of Canada was taken over in May, 1921, as a part of the System and since that time. The roads exclusive of the Grand Trunk Railway of Canada show the following results:

| | Total Operating Revenue | Deficit after charges |
|---|---|---|
| 1920 | $125,641,752 | $67,851,075 |
| 1921 | 127,002,467 | 56,989,979 |
| 1922 | 120,135,957 | 51,103,297 |
| **GRAND TRUNK RAILWAY OF CANADA** | | |
| 1920 | $81,442,647 | $4,599,105 |
| 1921 | 76,858,032 | 14,064,442 |
| 1922 | 77,700,019 | 8,411,734 |
| **COMBINED PROPERTIES** | | |
| 1920 | $207,084,399 | $72,450,180 |
| 1921 | 203,860,499 | 71,054,421 |
| 1922 | 197,835,976 | 59,515,031 |

Further comment on the comparison of this showing with that of the privately owned and operated Canadian Pacific seems wholly unnecessary. Reports so far received for 1923, however, show a decided improvement, and according to the Railway Age, Sir Henry Thornton, President of the Canadian National Railways, speaking in Toronto on December 21 last, predicted that, barring unforeseen conditions, the total net earnings of the System for the year available for fixed charges should reach $18,000,000. On the basis of such an increase, he expressed the belief that net return in 1924 should reach $30,000,000 and that in three years' time the lines would be earning enough to meet the fixed charges and would cease to be a drain upon the public treasury.

## The Bond Market

The success of the Imperial Japanese Government Loan is the outstanding feature of the bond market since the first of the year. In the American and Dutch markets were offered $150,000,000, while the amount offered in London was £25,000,000. This financing provides funds to refund the 4½ Per Cent Sterling Bonds maturing in 1925 and in part to purchase materials and supplies for the reconstruction necessitated by the earthquake. Japan has recently been a substantial buyer of lumber and steel in the United States and the favorable effect of this buying has been felt in the allied industries.

As there are few large maturities in 1924, this financing will probably prove to be the outstanding event of the year in the bond market and the favorable manner in which the Loan was received both in the United States and England is a pleasing commentary on Japan's credit. The English portion of the Loan, which bore 6 per cent interest, was heavily oversubscribed and is reported to be selling at 3 per cent premium over the issue price of 87½ per cent. Allottments on the American Loan, which bore 6½ per cent interest, were from 40 per cent to 60 per cent of total subscriptions and the bonds are now currently quoted around 93 as against an issue price of 92½.

News dispatches from Tokyo stated that dissatisfaction was felt in Japanese financial and newspaper circles due to the terms of the new Loan. Without considering the respect in which this criticism may be of a political character, it should be pointed out that the issuance of loans in amounts aggregating $250,000,000 calls for a momentous effort in the investment markets of the world. Take the case, for example, of San Francisco. After the earthquake, capital was for many years noticeably timid on municipal bonds of that city. Considering the serious character of the September earthquake in Japan and the fact that in all the markets of the world rates for long term money are fairly high, it would seem that Japan received favorable terms.

The general bond market during the past two months of the present year has broadened materially. Discussions in Washington pro and con and the reduction of surtaxes has stimulated the municipal market to a point where high prices have been recorded in recent sales, a block of Massachusetts bonds having been recently offered on a 3.85 per cent basis. Rails generally have been in good demand and high grade public utilities have been difficult to obtain. Hydro-electric bonds particularly have enjoyed a broad market and as far as it is able to judge the shelves of the dealers are clear of such issues at the present time with the result of an active trading market in the better known hydro-electrics which carry 6 per cent coupons. Most of these issues are quoted in the neighborhood of 100, which shows an advance or from three to five points over prices ruling some six months ago.

The Wall Street Journal reports under date of March 1st an average price of 87.41 for forty high grade bonds compared with 88.10 on February 1st, 86.73 on January 2nd and 87.58 on March 1st last year.